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Using Your Farm Supply Co-op



FCS Educational Circular 6
Farmer Cooperative Service
U. S. Department of Agriculture

THE Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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This educational circular is one of a series prepared for use of members of farmers' cooperatives and for educational work with rural youth

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Using Your Farm Supply Co-op

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BEFORE 1900 agriculture in the United States was largely a self-sufficient industry, and farmers generally did not have a difficult problem buying their farm supplies. They raised their own horses or mules for power, and produced most of their own requirements of feed and seed. Compared to recent times there was little demand for such specialized products as commercially mixed feeds, high analysis fertilizers, insecticides, or treated and adapted seeds.

With the turn of the century great economic forces such as the modernization of transportation and the growth of cities began to influence the character of farming. To a large extent, it

has become a commercialized industry producing crops and livestock for market.

As farming has become a more mechanized and scientific form of business, farmers have had to buy instead of produce a large portion of the supplies they require. In 1954 the yearly supply bill of an average American farm was over \$3,000. Approximately 45 cents out of every dollar taken in from sale of crops and livestock went to buy the feed, petroleum products, fertilizer, seed, and equipment needed to keep the farm factory going. These supplies are as essential to farming as iron, coal, and similar raw materials are to manufacturing.

Introducing Farm Supply Co-ops

AS THE supply bill has increased—it was over \$13 billion in the United States in 1954—many farmers have turned to cooperatives for help on buying problems. The extent of this development is shown by the fact that in 1952-53 some 3 million farmers bought cooperatively \$2 billion worth of farm supplies through nearly 7,250 cooperatives with about 10,000 service outlets.

Explaining Aims

Local farm supply cooperatives are simply groups of farmers who have banded together to get the benefits of joint buying power. Their aims are: (1) To purchase essential supplies for

their farming operations on the most economical basis possible; (2) to obtain supplies of satisfactory quality; and (3) to get the type of service that best meets their needs without unnecessary and costly frills.

All these aims are tied into a main object—economy. Supplies of high quality, for example, may actually be more economical than poor quality supplies at lower prices because they can be expected to increase yield and thus lower the cost of production.

When farmers join a cooperative, they assume definite responsibilities. The manner in which they meet these responsibilities determines to a great extent how well the cooperative will accomplish its aims.

Defining Types

Many cooperatives have been set up primarily to handle farm supplies. Many already in operation have added this service to their other activities in response to requests from members.

Types of cooperatives handling farm supplies as of 1952-53 can be classified in five groups.

First, approximately 3,250 separate local farm supply cooperatives were serving farmers. Some of these also marketed farm products.

Second, about 3,700 local marketing and service cooperatives, such as elevator, creamery, and cotton gin associations, handled farm supplies as a sideline. In some areas both the supply and marketing cooperatives served only a local community; in other areas they served an entire county and often had one or more branch stations or warehouses.

Third, about 60 regional farm supply cooperatives and 145 regional marketing cooperatives helped meet the needs of farmers directly through branch warehouses or stations, affiliated service cooperatives, dealer agents and farmer representatives. These large organizations often provided service in several counties, a State, or several States with farmers holding membership directly in them on a centralized basis.

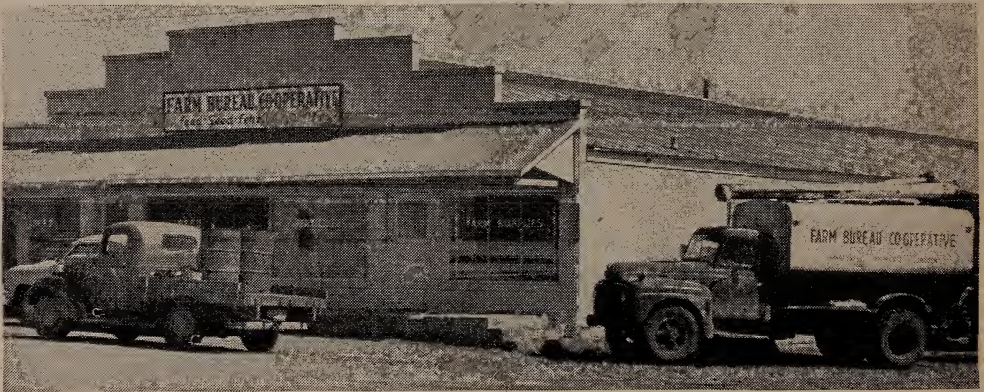
Retail service cooperatives affiliated with these regionals were included in

the first type of local farm supply associations listed, even though they may be managed or financed by the regional co-op. Dealer-agents handling supplies of the regionals under special agreements served around 1,500 communities. About 500 communities also were provided a railroad car-door purchasing service. Here farmers pooled their orders for supplies with a local farmer representative who arranged for delivery and collection at the car-door.

Over 7,150 cooperatives, therefore, directly provided *retail* supply services to farmers through about 10,000 service outlets.

Fourth, approximately 130 regional cooperatives owned by local cooperatives provided a *wholesale* service on production supplies and equipment. About 85 of the group were primarily farm supply organizations and 45 were primarily marketing associations. (Forty-two of these supply co-ops and 16 of these marketing associations also served farmers direct through various outlets and were included in the third group mentioned.) Some of these regionals manufactured or processed part or most of the supplies they handled. A few produced some of the raw materials such as seed, crude oil, and phosphate rock.

Fifth, 12 area or national federations of regional farm supply cooperatives performed purchasing and manufacturing operations for certain items.



An outstanding local cooperative serving broiler growers, Farm Bureau Cooperative Mill and Supply of Washington County, Ark., operates this branch store at Lincoln.

Two were national in scope—each serving 20 to 25 regionals. The others handled one supply item for 5 to 10 regionals in an area.

Of the 7,250 cooperatives handling supplies in 1952-53, 3,375 were predominantly farm supply associations—including both local and regional organizations. Farmers had about \$550 million invested in these 3,375 supply cooperatives.

Showing Volume Handled

The accompanying tabulation shows the number of cooperatives handling various supplies. It shows also the proportion represented by major items of the \$2 billion worth of supplies and equipment distributed to individual patrons during the 1952-53 crop year.

<i>Item</i>	<i>Percent of total supplies</i>	<i>Number of co-ops handling</i>
Feed	42.1	4, 238
Petroleum products	21.7	2, 654
Fertilizer	10.7	3, 392
Seed	5.0	3, 371
Farm machinery; other equipment	3.7	1, 791
Building materials	2.8	1, 159
Meats and groceries	2.2	892
Pesticides	1.2	1, 489
Containers	1.1	1, 000
General supplies ¹	9.5	4, 261
Total	100.0	(²)

¹ Includes coal, twine, automotive supplies, and items not reported in the other nine groupings.

² Most associations handled more than one supply item but not all of those listed here. A total of 7,244 associations handled some type of farm supplies in 1952-53.

Understanding How Your Co-op Works

IN ORDER to purchase farm supplies effectively on a cooperative basis you, as a farmer, should understand how a cooperative works. Farm supply cooperatives are business organizations set up to provide you with goods and services needed in farming.

In effect they are simply an extension of your farming enterprise since they are intended to make that enterprise more successful. They are your off-the-farm purchasing agents.

Looked at from the outside, these associations seem little different from other business enterprises which sell farm supplies to farmers. There are, however, important differences.

First, the purpose of a farm supply cooperative is to provide goods and services to its members at minimum cost. Its owners are also its patrons or users of its services. Other farm supply firms, in contrast, are operated to make a profit on invested capital. The purchases of their owners—the men who furnish the capital—usually do not constitute a very large proportion of the business of such firms.

Second, by operating their own supply cooperatives, farmers can determine how such businesses are to be run. In the typical cooperative every man has one vote, regardless of the amount of capital he has invested in the association or the amount of business he does through it. Control is thus based on equal voting rights of each member rather than on the amount of invested capital.

Third, farm supply cooperatives generally are organized so that dividend payments on capital are limited to not more than 8 percent a year. In actual practice usually only 3 to 5 percent is paid. This is in accord with the cooperative theory that only a nominal rate should be paid on capital used in the enterprise. The remaining net margins (savings) usually are refunded as final settlements to patrons in proportion to their volume or patronage. In other types of business, all net profits that are distributed go to the owners in proportion to their invested capital.

Cooperatives usually bill supplies to patrons at going or regular prices in

the community and return net savings annually in the form of patronage refunds. Occasionally some have endeavored to fix the price of supplies sold at cost plus handling charges, but the former practice generally is considered a sounder basis of operation.

Farm supply cooperatives pay all types of property taxes, license fees, and the like which are assessed against business firms handling similar lines of supplies.

Probably two-thirds of the supply cooperatives also file a regular corporate form of Federal income tax return and pay some income taxes. Most of them, however, have relatively small amounts to pay each year because they are under obligation to refund net savings or margins to patrons in proportion to their patronage. The income tax regulations provide that a cooperative may exclude such refunds in determining its taxable income, provided that an advance agreement exists between the cooperative and its members or patrons to make patronage refund distributions. Any other type of business that wishes to make refunds to its customers under such an agreement is subject to the same income tax treatment.

Some supply cooperatives—possibly a third of the total—file a special form of Federal income tax return and have little or no income taxes to pay because they operate under strict requirements of certain Federal statutes. Some of the principal operating restrictions are:

- (1) Supplies and equipment must be turned over to all patrons at actual cost plus necessary expenses. The income-tax regulations require that any patronage refunds made to patrons in carrying out this objective shall be distributed in proportion to each individual patron's use of the cooperatives;

- (2) Business with nonmembers must not exceed that done with members;

- (3) Returns on capital must be limited to the legal rate of interest in the State or 8 percent per year, whichever is greater;

- (4) Supplies and equipment pur-

chased for nonmembers who are not producers must be limited to 15 percent or less of the total supply and equipment business; and

- (5) Substantially all voting rights must be held by actual producers who currently patronize the association.

Each patron, of both groups of cooperatives, of course, must take his respective share of patronage refunds into account in preparing his own income tax return.

Farm supply cooperatives function through boards of directors elected by the members. The number of directors, term of office, and method of election are spelled out in the articles of incorporation and bylaws. Usually the number of directors ranges from 5 to 11. They are elected for 2- or 3-year terms on a staggered basis so that only part of the board will be elected each year.

The day-by-day business of a supply purchasing cooperative is carried on by a manager who is directly responsible to the board of directors. He carries out the policies established by the board.

The physical facilities needed are much the same as those required to conduct any business. A co-op, however, differs from other types of supply business in organizational features and operating methods.

This is a description of a typical farm supply association serving a local community in the Middle West.

The association has approximately 700 farmer patrons. Its main facilities are located in a county-seat town just outside a high rent or congested district. This gives it more warehouse, loading, and parking space. Its facilities consist of a substantial warehouse about 60 by 120 feet. The building is on a railroad siding so that supplies can be unloaded from the car into the warehouse. On the street side is a loading platform for trucks and farm cars. The front of the building is divided between a general office and display room. Besides office equipment, there are scales, feed trucks, and feed-grinding equipment.



Petroleum products ranked second in supplies handled by farm supply co-ops in 1952-53. Bulk plant, station and tank trucks of Farmers Co-op Oil, McMinnville, Oreg.

The association also operates a bulk petroleum station near the railroad tracks. Three tank trucks deliver petroleum products to farmers. In addition, the association handles feed, fertilizer, seed, binder twine, paint, farm equipment, and similar items for its patrons.

Most of the supplies are obtained from a State or regional wholesale purchasing cooperative of which the local is a member. The local cooperative gets its proportion of any net savings that come from the operation of the wholesale association.

Farmers pick up their supplies at the warehouse in their own trucks or cars, with the exception of petroleum products and in some instances feed and fertilizer, which usually are delivered. The association carries sufficient supplies to meet the needs of most farmer members. Items required by only an occasional farmer are purchased "on order" as they are needed, a practice which enables the cooperative to operate with a moderate inventory in proportion to its sales volume.

From one-third to one-half of the supplies are sold on credit. Most of this is accommodation credit—usually from a few days to 30 days.

This association had annual sales in 1954 of about \$300,000. It operated on a gross margin of 16 percent and service revenue from grinding and trucking services of 1 percent. After paying operating expenses of

14 percent, it had local net savings of 3 percent. Patronage refunds of 2 percent on purchases from its wholesale cooperative brought total net savings to 5 percent.

After adding to the general or members equity reserve account, providing for income taxes where applicable, and paying a 3 to 4 percent dividend on capital stock, patronage refunds to local patrons amounted to 3.75 to 4 percent per dollar of business.¹ In other words, each member-patron at the end of the year received a patronage refund of \$3.75 to \$4 for every \$100 worth of supplies he purchased. A record is kept of each farmer's transactions so that net operating margins or proceeds at the end of the year can be prorated or refunded in proportion to his share of the total patronage.

Additional capital was needed in the business, however, so the members voted to have a portion of their refunds paid in capital stock and the remainder in cash. They also provided that such stock would be retired under a revolving capital plan, explained on page 7, when adequate capital was accumulated.

The association has been operating for about 20 years. It has gradually accumulated a net worth or members

¹ Some cooperatives do not pay any dividends on stock, especially if it has been issued for patronage refunds under a revolving capital program. See page 7.

equity of \$60,000, divided about equally between capital stock and general or members equity reserve. This net worth amounts to more than three-fourths of its total assets of \$75,000.

The assets are of three types—current, fixed, and other. Current assets of \$30,000 consist of \$9,000 in cash, \$5,000 in accounts receivable for

merchandise on which it had not yet collected cash, and \$16,000 worth of goods on hand or inventory. Its fixed assets—buildings, oil tanks, trucks, and other equipment—cost about \$30,000 and have a book or depreciated value of \$20,000. Other assets, consisting mainly of investments in its wholesale cooperative, total \$25,000.

Becoming a Member

WHEN you join a farm supply cooperative you are actually increasing the equipment of your farm by adding a purchasing department. Like any other piece of farm equipment, this procurement department must be properly geared to do the job required. You, yourself, must help to run it, because you are a part-owner; and those who are in charge of its actual operations are, in effect, your hired men.

Before deciding to become a member of a farm supply association you will want to find out how it operates. Your decision will depend upon study of a number of facts. If there is a cooperative in your area, you will want to know just what benefits you can get from joining it, and whether it will give you supplies of good quality and the type of service you require at a saving in cost. Some suggestions on how to determine for yourself the

answers to these questions will be found in Circular E-18 in this series, entitled "Sizing Up Your Cooperative."

If you believe you would benefit from joining, you can become a member by applying for membership and agreeing to comply with the association's requirements as outlined in its by-laws.

If farmers are interested in forming a cooperative in an area, they should consult such agencies as the Extension Service, general farm organizations, and their State cooperative council. No association should be set up unless there is an economic need for it and unless a survey shows that enough farmers are willing to work together to assure successful operation. Information on properly organizing a cooperative is provided in Circular E-19 in this series entitled "Forming Farmers' Cooperatives."

Helping Finance Your Co-op

AN AGRICULTURAL co-op's chief purpose is to make farming more efficient, not to make profits on the co-op's invested capital. A major share of the financial responsibility rests upon the shoulders of those whom the cooperative is intended to benefit—you and the other farmer-members.

A cooperative requires capital not only to maintain a place of business and facilities, but also to carry on day-to-day business operations. Farm supply cooperatives obtain capital

mainly from three sources: (1) Investments by farmer-members in the capital stock, membership fees, or certificates of indebtedness or other capital equities of the cooperative; (2) loans; and (3) operating savings.

Cooperatives at time of organization have generally found it wise to obtain at least 50 percent, and preferably 60 percent, of the needed capital from members. They strive to increase this amount to cover the cost of facilities and to provide at least the minimum needed for operating capital.

This means that as the cooperative becomes well established members often provide 75 percent or more of the capital.

Ordinarily shares of stock or other membership capital are issued in par values or amounts of \$10 or \$25 and members are encouraged to subscribe as liberally as possible. Later the amounts may be adjusted more in line with the patronage of each member under a revolving capital plan. A few supply cooperatives are financed by adding a capital charge or assessment to each unit or dollar of purchases by members—comparable to capital retains from proceeds in marketing associations.

Many cooperatives obtain capital through loans from banks for cooperatives in their district, from other lending agencies, and from individuals. While sound business practices oppose the use of too much borrowed money, it is often good policy from an operating point of view to obtain a loan for financing the seasonal movement of supplies or to improve facilities. If an association is to use lending services, it must, of course, have a sound financial structure. Members cannot expect others to put money into their cooperatives unless they first demonstrate their own willingness to provide a substantial part of the capital required. This is particularly essential at the outset.

Farm supply cooperatives obtain some of their capital from net savings or margins left in the business. These may be in the form of capital reserves; capital stock or other equity capital certificates issued in payment of patronage refunds; or as deferred patronage refunds.

Many have started operations with

a small amount of paid-in capital with the understanding that a portion of the net savings from operations would be retained until the association had built up an adequate capital structure. Members can greatly assist their associations in such financing by giving their full patronage and by permitting their patronage refunds to be deferred until the cooperative is adequately financed. Too heavy cash patronage refunds sometimes have caused the failure of a cooperative.

Partly as a safeguard against this problem, a number of associations have adopted the revolving capital system of financing. With this system an association defers the cash payment of patronage refunds for a period of years until sufficient capital is accumulated. Such deferred refunds may be evidenced by capital stock, certificates of indebtedness or equity, book credits, or other forms of equity capital. Then they are retired or revolved according to age.

This places the burden for financing on the members in proportion to the use they make of their association. Also future patrons will gradually provide capital to replace that of older patrons who die, move away, or for other reasons cease patronizing the association. A more detailed description of the revolving fund system is given in FCS Educational Circular 5, "Financing Farmer Cooperatives".

Farmers can give financial support to their association in several other ways. By paying cash for all supplies they keep outstanding accounts receivable low and thus avoid tying up operating capital. By ordering supplies in advance and taking delivery promptly, farmers can help the co-op keep down its investment in inventory.

Participating as a Member

TO GET the fullest use of your co-op—which is another way of saying the greatest benefit—it is essential that you do your part in assuming

all the responsibilities of membership. This means more than buying supplies through the association and giving it financial support. It also means par-



Seed and general farm equipment are typical supplies farmers buy through local co-ops.

ticipating in its democratic control—in using your vote and your efforts to maintain and strengthen its usefulness to you and your fellow members.

Your first responsibility as a co-op member is to attend membership meetings. This is the surest way of knowing what your association is doing. It gives you an opportunity to take part in directing the affairs of your association by voting for directors, by presenting resolutions, by expressing your opinions, or by any other proper method. If members do not attend and participate in meetings a small group may “run” the organization and thus impair its democratic character. Attendance at meetings enables you, as a member, to have a better understanding of your association’s methods, problems, and accomplishments.

In the second place, as a member, it is your responsibility to help select a competent board of directors. You should always remember that incompetent directors can ruin a cooperative. For that reason, you must use your best judgment in voting for board members who will further the association’s general purposes. Directors should be capable and interested in the success of the association; they should be independent in their thinking, but able to work with others.

You should also be aware of the risks involved in reelecting the same directors year after year. It is desirable to have new blood continually coming into the board of directors. This gives more members a share in the control of the association and promotes a wider community interest. Many local associations provide in their bylaws that a board member may not succeed himself after a stated period—usually two or three terms. After missing one year or term, he is eligible again for election.

In the third place, you, as a member, have the responsibility of keeping yourself informed on the operating methods and performance of your association. While members cannot know all the details of operations, you should insist on having information about the principal things going on and the reasons for the operating policies of the cooperative. A well-informed and enlightened membership helps to insure success. It is important for you as a member to be able to explain the aims, organizational features, benefits, and limitations of your cooperative to others.

You can also help your cooperative by bringing problems and complaints to the attention of the manager promptly. He can then take whatever action is necessary.

One of the most important contributions you can make to the success of your cooperative is to patronize or use it. Volume helps it to operate efficiently and gives advantages in quantity buying as well as in lower operating expenses per unit.

Solving Operating Problems

AS A member of a supply purchasing co-op you should know something about the problems which confront your manager and board of directors. This will enable you to help your association in many ways. For example, you can often give your association material help in (a) deciding what supplies should be handled, (b) developing policies as to quality of supplies to stock, (c) regulating inventory, (d) controlling credit, (e) keeping service geared to needs, and (f) improving efficiency.

Deciding What to Handle

One of the first questions to be settled is the line of supplies to be handled. In this the management must take into account the needs of members.

It is folly for an association to handle supplies which are not used in sufficient quantity to justify the service. At times members request supplies which cannot be sold in volume and therefore cannot be handled efficiently. Members sometimes want their association to stock a wide range of commodities before it has built up adequate capital and sound merchandising procedures. It is much better to specialize in supplies on which a definite service can be rendered than to carry a wide line of items and give but mediocre service.

A number of associations have found that it is good policy not to introduce a new line of supplies until a careful study of the needs of the members and the costs involved has been made. Members can help greatly by encouraging this conservative type of growth.

Many cooperatives could improve their efficiency by eliminating certain slow-moving or small-margin items. In general, farm supply cooperatives have found it desirable to confine their business, as far as practicable, to those supplies which can be handled

in large quantities with a rapid turnover.

Developing Quality Policies

The quality program of a supply purchasing cooperative also should be adapted to the needs of its members. You as a member should help work out the policy.

Some associations have been so interested in increasing sales volume that they have sacrificed quality. On the other hand, some have gone to the opposite extreme and have curtailed the extent of their service by handling only supplies of the highest quality—items their patrons had not been accustomed to using.

While a cooperative should strive to educate its members to the advantage of high quality supplies, it should also meet the needs of those farmers who desire to buy supplies of lower quality at a lower price. Such a practice enables the members to buy either on a quality or a price basis. Many cooperatives have found this policy generally satisfactory. Furthermore, under it many associations have made remarkable progress in raising the general quality of supplies used by members. They have been able to demonstrate that in many cases a product of high quality more than pays for itself in improved yields or results.

Regulating Inventory

Members need to realize that farm supply cooperatives have a constant problem in keeping inventory under control. Often they can help their association with this problem.

A constant danger is that if prices fall abruptly, large stocks of goods built up in a period of rising prices cannot be sold except at a heavy loss. Since price changes are difficult to forecast, it is easy to get into this position. An association's management should study price trends and

economic conditions carefully to avoid building up an excessive inventory. This is particularly necessary for cooperatives short of operating capital.

Although the inventory problem is greatly influenced by fluctuating prices, there would still be a problem if prices were relatively constant. There is always the risk of overestimating or underestimating the amount of supplies that should be carried to serve the members. Sometimes associations do not adequately study their stock needs in the light of their sales records and sales possibilities. As a result, they may tie up capital in commodities which deteriorate in quality before they can be sold. Feeds may get stale, salt hard, fertilizer lumpy, containers shopworn, seed damp, farm machinery rusty, and so on.

On the other hand, running out of merchandise creates member dissatisfaction. It is important, therefore, to have an inventory control system to assist in keeping on hand an

adequate but not excessive supply of each commodity.

Farm supply associations should also strive to turn over their stock of goods rapidly. Careful ordering and buying plus aggressive merchandising are the key to a good inventory turnover.

Controlling Credit

The credit problem of farm supply cooperatives must receive practical and careful consideration. The cost of credit to an association includes time, bookkeeping, collecting costs, as well as the interest cost of capital tied up in unpaid patrons' accounts. Added to these are the cost of bad debts and the hidden costs arising from the difficulty of fairly administering a credit program without causing membership dissatisfaction. Few associations that grant credit realize how these various costs mount up. Credit costs alone may keep a supply cooperative from showing a substantial net saving.



A major responsibility of members is to attend annual meetings to learn more about their association, and to make sure their off-the-farm business is being run as it should be.

Many cooperatives have found that they can operate beneficially on a strictly cash policy. Members who realize the costs involved in credit transactions often help solve the credit problem. Together with the management they can enforce a strict but workable credit policy. Control of credit in large part involves self-discipline and education of members.

Gearing Service to Needs

If members are not satisfied with the service provided by their cooperative, they will not give it support. While farm supply association service does not need to be elaborate, it should be of a high standard. The members should be made to feel that their co-op is doing everything it can to take care of their needs in the way most convenient to them. This means that employees must be kept well informed and must be interested in the members' problems.

Members cannot be expected to patronize a cooperative if better service is obtainable elsewhere. If a cooperative cannot give service that compares well with other farm supply distributors, it cannot expect support. There is an old slogan that "those who serve, survive."

Improving Efficiency

Efficient and economical service in any business is dependent upon adequate volume. No association should be organized until a careful study has



Bulk fertilizer spreading is an efficient service many farm supply co-ops provide.

been made to indicate whether sufficient volume can be obtained to assure efficient operation. Usually increased volume cuts costs per unit as it makes possible greater economies through quantity purchasing; better use of labor, buildings, and equipment; and employment of more competent management. Members can help assure volume by giving the association their patronage and making full use of the services offered.

Members can help keep the operations of their cooperative efficient by not requiring unnecessary or unreasonable services such as excessive credit, or special delivery of small orders. Also they can help by advance ordering of supplies, taking early delivery of supplies, providing adequate capital, and by cooperating with management in carrying out various business policies.

Knowing What to Expect from Regional Co-ops

LOCAL farm supply cooperatives cannot do a complete, effective job by "going it alone." Many, therefore, have joined together to form regional wholesale and manufacturing farm supply associations. These associations are your means of realizing for yourselves the economies possible through still larger volume operations. They also bring benefits by going all

the way, or at least a long way, toward the source of supply—both in purchasing and manufacturing important farm supply items. These cooperatives now provide over three-fourths and manufacture or process about one-half of the total supplies handled by local farm supply cooperatives. In addition, they are active in improving farmer, employee, and

public understanding of cooperatives, and in helping local associations improve their operations and services.

Probably three-fourths of the local supply cooperatives obtain a large proportion of their supplies through regional associations which together did a wholesale business of over \$850 million in the 1952-53 year. Each of about 30 of these wholesale associations had annual sales in excess of \$5 million, while about 50 others each had annual sales ranging from \$1 million to \$5 million. In addition 45 marketing regionals performed a wholesale supply service for local co-ops as a sideline operation.

Whenever regionals have found they could do things better as a group than individually, they have formed federations of regional associations. In the 1930's and 1940's, 14 were formed. Most of them were set up to realize economies in manufacturing or processing selected farm supplies, particularly feeds, fertilizers, petroleum products, and farm machinery. For example, two associations were formed to purchase and process seeds and three were established to act as procurement agencies for fertilizer materials. Two perform wholesale buying for general supplies on a national basis by pooling the requirements of their regional members.

Regional cooperatives are performing important services for their local associations and farmers. Following are the principal types of services and benefits:

(1) *Additional savings.* Savings can be made by pooling the purchasing power of a large number of local cooperatives and buying in wholesale quantities. Additional savings usually can be made as regional associations undertake to process, manufacture, or produce supplies.

Twenty-five major regional farm supply cooperatives in 1953 had net savings of approximately \$31 million on a volume of \$911 million—mostly at the wholesale level. This was about 3.4 cents on each dollar of business. Most of these regionals processed or

manufactured a large portion of their supplies, or shared in savings from such operations performed by federations of regionals.

Approximately 75 percent of these savings were distributed in cash to member cooperatives—either on current operations or to retire deferred refunds for earlier years under their revolving capital plan of financing.

(2) *A dependable source of supplies.* Locals, by combining their volume through their own regional wholesale association, assure themselves of dependable sources of supplies suited to their needs. Such regionals, which can either purchase or manufacture supplies, are especially helpful to locals and their farmers during periods of national shortages of certain supplies.

(3) *Quality of products controlled or improved.* Regional wholesale cooperatives can establish quality specifications and selectively purchase supplies that will give farmers the greatest value-in-use. When they have manufacturing plants and laboratories, quality can be checked and controlled and research can be undertaken to improve formulas or quality.

(4) *Much assistance to local cooperatives with their operating problems.* Regional cooperatives through their



This push button feed mill at Aurora operates as a branch of the MFA Milling Company, Springfield, an affiliate of the Missouri Farmers Association, Columbia.

fieldmen have helped local managers and employees on management, merchandising, operating practices, product knowledge, and membership information. By providing auditing services, much accounting and financial assistance has been made available. Bonding and insurance are other services provided. Regionals also undertake research to aid locals in improving their operating efficiency and services to farmers.

(5) *Farmer understanding of cooperatives improved.* Through their efficient performance regionals have demonstrated to farmers and local cooperative leaders the advantages of joint effort beyond the local level. By

membership publications, meetings, and other educational media, they have informed farmers, employees, and the general public of the basic features of purchasing farm supplies cooperatively.

Although these regional organizations may perform technical wholesale purchasing and manufacturing services for local cooperatives or other retail supply agencies, it should be remembered that they are owned by farmers. They are not just another business entity. They are agencies set up by farmers to obtain quality production supplies which cannot be produced on their farms or economically bought in small individual lots.

Some Questions on Your Farm Supply Co-op

1. How does a farm supply cooperative differ from other farm supply establishments? What are the advantages and disadvantages of purchasing cooperatively?
2. What types of farm supply cooperatives do you have in your community? Do you think they should handle a wider or narrower range of farm supplies?
3. To what extent do farmers in your community purchase their farm supplies cooperatively? Answer this for various types of farm supplies.
4. What are the membership requirements of your local farm supply cooperative? Do farmers in your community fulfill their membership responsibilities? How might they better fulfill their responsibilities?
5. How do farm supply cooperatives in your locality obtain capital? Do farmers give their cooperatives adequate financial support?
6. What type of farmers make good directors of farm supply cooperatives? Do your local directors have these qualifications? If you were a director, how would you make the service more efficient?
7. Does the farm supply cooperative in your community provide adequate information for its members? Do its members give loyal support? How would you define loyal support?
8. Does your local farm supply association sell on a cash or a credit basis? Do you believe that a strictly cash policy is practicable?
9. Does your local farm supply cooperative have adequate facilities? Could they be better located? Are its employees courteous and well informed?
10. Is your local farm supply association a member of a wholesale farm supply cooperative? If so, what advantages does it get from this organization?

Some Publications on Farm Supply Cooperatives

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- Abrahamsen, Martin A., and Gessner, Anne L. Operations of Regional Cooperatives Doing Less Than \$5 Million Supply Business, 1950-51. FCA Misc. Rept. 171. 1953.
- Grab, Eugene G., Hurst, Wilbur M., and Scroggs, Claude L. Cooperative Fertilizer Plants. FCA Circ. C-145. 1952.
- Mather, J. W., and Searce, Jane L. Handbook on Major Regional Farm Supply Cooperatives, 1953 and 1954. FCS Gen. Rept. 18. 1955.
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- Mather, J. Warren. Mississippi Federated Cooperatives' System—Its Purchasing and Marketing Services. FCS Bul. 2. 1954.
- Mather, J. Warren. Repairing Machinery Cooperatively in Indiana. FCA Misc. Rept. 112. 1948.
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- Rickey, Lacey F. Delivering Feed in Bulk. FCS Circ. 3. 1952.
- Rickey, Lacey F. Feed Bags—Kinds, Costs, and Problems. FCS Circ. 2. 1954.
- Scroggs, Claude L., and Byrne, Robert J. Cooperative Fertilizer Transportation in the North Central States. FCS Gen. Rept. 7. 1954.

Copies of these and other publications on marketing, farm supply and related service cooperatives may be obtained upon request while a supply is available from

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